

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6189**

**BILL NUMBER:** HB 1055

**DATE PREPARED:** Oct 31, 2001

**BILL AMENDED:**

**SUBJECT:** Review of Privatization Savings.

**FISCAL ANALYST:** John Parkey

**PHONE NUMBER:** 232-9854

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides that a contract or the solicitation for a contract to privatize any of the functions currently performed by a governmental body's employees must:

- (1) require an offeror to provide verifiable evidence that the cost of the contract will be less than the cost of having the functions performed by the governmental body's employees; and
- (2) specify that the governmental body may not pay the contractor more than the cost that the contractor determined the governmental body would incur to perform the functions using its own employees.

**Effective Date:** July 1, 2002.

**Explanation of State Expenditures:** This bill may increase the administrative costs of state agencies that seek to contract for services currently performed by state employees in so far as it would require agencies to determine what the cost of the project would be if state employees continued to perform the service. The bill may also encourage private contractors to increase their bids to perform services to reduce the risk of under bidding the project. Contractors may also increase their bids to cover any additional cost incurred by conforming to the changes in the solicitation process proposed in this bill.

Despite the potential for additional costs, the bill also has the potential to provide the state with cost savings. Upon seeing the results of a cost analysis showing what the proposal might cost the state, contractors may offer to perform the service for an amount below that which they would have bid had the cost analysis not been known. State expenditures may also be reduced if, upon performing the cost analysis, a state agency that was to contract services finds that state employees are able to perform the services for less than any bid submitted by a private contractor.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** The costs and savings described for state agencies above would also apply to the contracting of services by local entities.

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Administration; other agencies which may contract for services currently performed by governmental employees.

**Local Agencies Affected:** Entities seeking to contract for services currently performed by governmental employees.

**Information Sources:** Jay McQueen, Department of Administration, (317) 232-7636.